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WASHINGTON, D.C. 20505

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29 January 1975

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MEMORANDUM FOR: Mr. Robert Gelbard
Bureau of Economic and Business Affairs
Office of Development Finance
Department of State

SUBJECT : Chile: Balance of Payments Prospects for 1975

In response to your request, we are transmitting our assessment of Chile's 1975 balance of payments prospects. Queries concerning this report should be directed to [redacted]

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Office of Economic Research

Attachment:
As stated

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Chile: Balance-of-Payments Outlook for 1975

1. The damage to prospective export earnings caused by low world market copper prices will cause serious balance-of-payments difficulties for Chile in 1975. Without official economic assistance beyond levels presently in sight, compensation payments for US companies may be jeopardized, and Santiago certainly will be forced to drastically cut back imports, with harsh consequences for economic growth. We estimate the remaining financing gap at no less than $258 million.

2. Weak demand by the industrial nations and large world stocks overhanging the market almost certainly will keep copper prices low throughout 1975. We expect 1975 copper prices to average no more than 65 cents a pound compared with a 1974 average of one dollar. At the same time, Chile has agreed with the other CIPEC countries to reduce copper export volume about 10% from the 1974 level -- to 810,000 metric tons. Under these circumstances, Chile's total export earnings will amount to no more than $1.5 billion, down 25% from last year. If copper prices average only 60 cents a pound -- as is quite possible -- total 1975 export earnings would amount to only $1.4 billion.

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3. The estimated financing gap assumes that a 10% cut in imports from last year to $2 billion will be effected by the military government. Such a cut, probably the maximum that can be made without serious adverse affect on economic growth, is now under consideration. Since sizable inventories were accumulated under a liberalized import policy, most observers believe imports of raw materials and intermediate goods probably could be cut substantially without serious damage. Moreover, Santiago probably could restrict oil imports to last year's level by introducing rationing or by raising oil prices to consumers. Such efforts will be further aided by this year's improved harvest and by continuing US PL-480 assistance, which together will permit a 13% cut from last year in food imports.

4. With an import cut of this magnitude, Chile's 1975 current deficit still is likely to climb to $800-$900 million compared with some $440 million in 1974. A considerable part of the increase is expected to be offset by an improvement in the capital account, however. New suppliers credits this year are expected to push inflows of private capital sharply upward, to about $400 million. At the same time, presently contemplated official assistance will total $307 million, as follows (million US $):

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US AID and PL-480	30
IMF	187
World Bank	80
IDB	10

Finally, Chile has a good chance of obtaining about $200 million in debt relief at the March meeting of the Paris Club.

5. This leaves a financing gap of $258-$358 million. Since foreign reserves amount to only $195 million Chile will be forced to further curtail imports unless additional financing can be obtained. Because Chile's poor credit standing precludes borrowing from commercial sources, such financing will have to come from official sources. In view of the military government's blemished international image, financing from even official sources is far from assured.

CIA/OER
29 January 1975

Chile's Balance of Payments

Millions of Dollars

	1974	1975 Average LME Copper Price 65¢	1975 Average LME Copper Price 60¢
Current account (net)	-441	-760	-850
Exports (fob)	2,037	1,535	1,445
Copper 1/	(1,560)	(1,010)	(920)
Other	(477)	(525)	
Imports (cif)	-2,234	-2,015	
Foodstuffs	(-472)	(-410)	
Petroleum and products	(-348)	(-350)	
Other	(-1,414)	(-1,255)	
Services (net)	-248	-300	
Transfers (net)	4	20	
Capital account (net)	-71	502	
Private	-379	410	
Official	308	-108	
Drawings	(946)	(307)	
Amortization	(-638)	(-415) 2/	
Debt relief	424	200	
Overall deficit	-88	-258	-348

1. Net copper exports assume an 8.5 cents per pound discount from the copper wirebar price CIF Europe, to allow for quality deviation, freight and insurance.

2. Includes compensation payments to foreign companies for properties nationalized in Chile.

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